C3950-1

WHY THE MARKET'S LIKE A POKER GAME

WILL VAIL BE FOR SALE?

THE MIDWEST CEO WHO'S BANKROLLING BROADWAY

APRIL 16, 1990

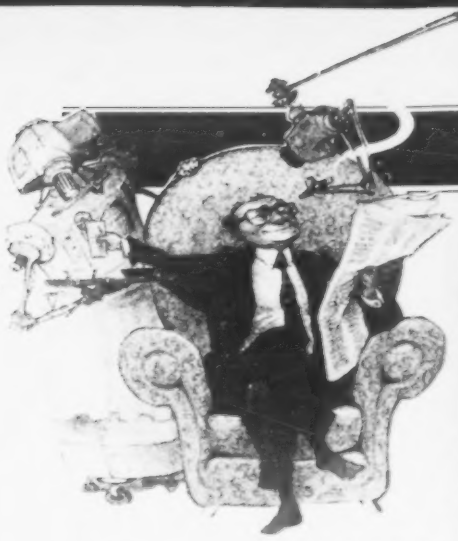
THREE DOLLARS SEVENTY-FIVE CENTS

Forbes

WHY THE JAPANESE FEEL AT HOME WITH ROBOTS

(AND WE DON'T)

Forbes



148 Cover illustration by H.B. Lewis

40 *Not out of the woods yet*

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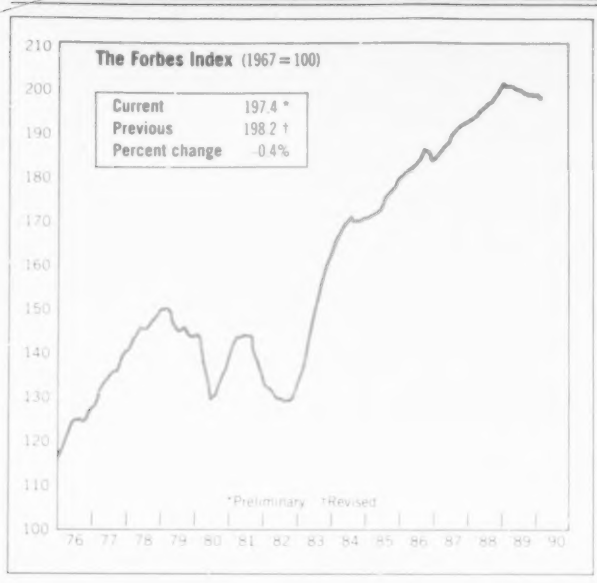
April 16, 1990 Volume 145 Number 8 Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. Subscription $48 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1990 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

The Forbes Index



While the February total of new housing starts was the same as the comparable 1989 figure, revised statistics show the December 1989 total (75,000) was the lowest since the recession days of February 1982. Loan losses in the banking and thrift industries (once concentrated in the Southeast and now spreading to New England and elsewhere) are making lenders apprehensive about extending credit for developers. Another downer: Claims for unemployment benefits are on the rise. Over the past six months claims are up 18% from a year earlier.

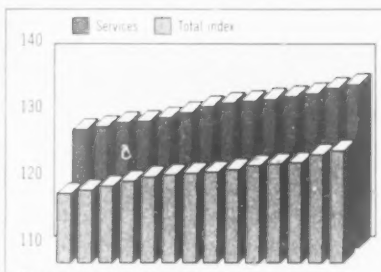
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	10.0%
Auto sales[1] year to date vs. 1989	Ward's Automotive	-0.6%
Index of leading indicators January vs. December	Dept. of Commerce	0.0%
Trade balance last 12 months	Dept. of Commerce	-$99 bil
Producer price index[2] February vs. 1989	Dept. of Labor	5.1%
GNP 4th quarter vs. 3rd—annualized growth	Dept. of Commerce	0.9%
NBER Experimental Recession Index[3]	Natl Bureau of Economic Research	3.0%

[1]U.S. based manufacturers only as of 3/20/90. [2]Finished goods. [3]January 1990.

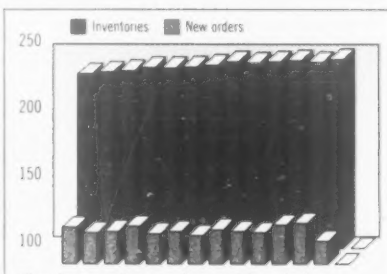
Index Components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements. Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

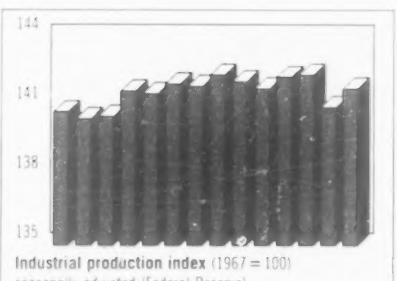
To measure these 8 elements FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



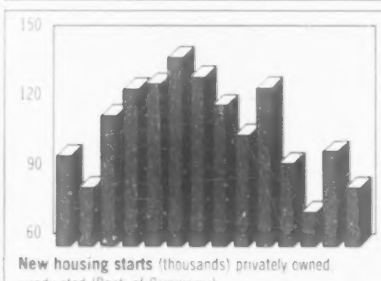
Consumer price indexes (1982-84 average = 100) all urban consumers, unadjusted (Dept. of Labor)



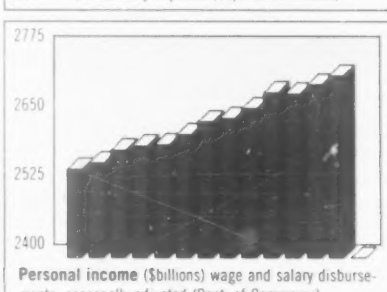
Manufacturers' new orders and inventories ($billions) seasonally adjusted (Dept. of Commerce)



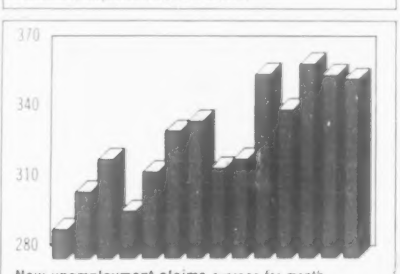
Industrial production index (1967 = 100) seasonally adjusted (Federal Reserve)



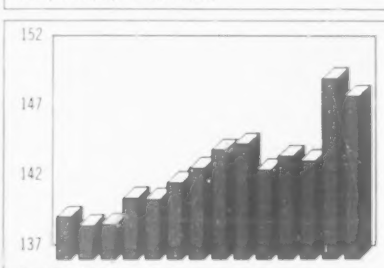
New housing starts (thousands) privately owned, unadjusted (Dept. of Commerce)



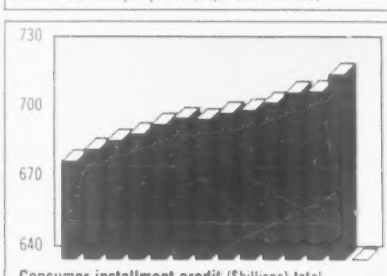
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



New unemployment claims average for month (thousands) seasonally adjusted (Dept. of Labor)



Retail sales ($billions) seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

National Center for Toxicological Research in Jefferson, Ark., estimates the additional cancer risk of lifetime exposure to a 1-liter bottle of the contaminated Perrier every day for 70 years to be somewhere between 1 in 100,000 and 1 in 10 million. Thus, if every American were to drink a liter of Perrier every day from birth to death, we might—might—have a couple of hundred extra deaths a year if Perrier's filters didn't get changed. Of course, the springs of Perrier would have long since gone dry under all that consumption.

That we can detect such minuscule risks is something quite new. It seems that now we are getting too skilled at analytical chemistry for our own good—at least if we want to continue living the Delaney clause illusion of zero risk. "Fifteen years ago we couldn't even detect 35 parts per billion," says Gaylor's boss, Ronald Hart, the director of the toxic research center. "Now we identify one part per quintillion. That's almost the equivalent of filling the entire Great Lakes with gin and putting a single tablespoon of vermouth in it. That I think you would agree would be a pretty dry martini."

Unfortunately, in today's emotion-charged media climate Perrier could not afford to have such arcane mathematics debated on TV. So $40 million worth of harmless product was added to landfills. Thus did Perrier become the perfect paradigm of the hypochondria that now grips an affluent society frightened by shadows on the wall. Says Paul Slovic, a psychologist at the University of Oregon specializing in risk perception, "The more the nation spends on regulation, no matter how many billions are spent, the less safe the American public seems to feel."

Science Editor Daniel Koshland lampooned this mood last June when he invented an interview with "Dr. Noitall" whose "appearance on three talk shows is enough to qualify me as an expert." "Are there other dangers about which the EPA has failed to advise us?" Noitall is asked. "Breathing," he says. "All breathing generates oxygen radicals . . . the main sources of mutations in DNA, leading to cancer, birth defects. . . . Breathing has been observed three minutes before death in 100% of all fatalities. We urge everyone to stop breathing until proper research has been carried out."

But that kind of hypochondria is no laughing matter. Not when we will soon be spending more than $100 bil-

As federal payments to local governments decline, real estate taxes, so-called user fees and other local levies are creeping higher.

The natives are restless

Erica Lansner/Black Star

Tax revolt leader Steven Schlussel
"For many people, property taxes now exceed federal income taxes."

By Janet Novack

SINCE ATTORNEY Steven Schlussel moved into his home on New York's Long Island in 1981, his real estate taxes have climbed from $3,400 to $8,300. Sure, Schlussel built an addition, raising his home's value. But even without that addition, his taxes still would have risen 85%—more than double the inflation rate in that period.

"For many people, property taxes now exceed federal income taxes," grouses Schlussel, now a leader in Long Island's growing property tax revolt. True, Long Island has some of the highest property tax rates in the nation. But similar complaints are echoing across the U.S.

Here's how angry the taxpayers are: The Advisory Commission on Intergovernmental Relations asks the Gallup Organization to poll Americans each year on what they think is the worst of all taxes. In 1989, for the first time since 1978, the year of California's big property tax revolt, more taxpayers fingered the local property tax than the federal income tax.

The original Reagan Administration tax cuts and 1986's tax reform, which further reduced income tax rates, contributed to this shift in sentiment. The share of national income eaten up by the federal individual income tax peaked at 9.6% in 1981, and in fiscal year 1989 was 8.7%. That drop represents a lot of money—about $45 billion lost to the federal coffer. At the same time, income consumed by state and local taxes and fees rose 9%, growing from 10% to 10.9% of gross national product.

Most of the extra money raised by states, cities and towns made up for declining federal aid. The rest helped pay for programs that Congress ordered but didn't foot much or any of the bill for: improved solid waste and sewage disposal; asbestos removal from the schools.

There is no longer much give in the federal budget. But Washington politicians are addicted to passing new programs and appeasing special interests. So they pass laws and send the bill to business and to state and local government. State pols, too, like to hand out benefits they don't pay for. "The federal and state governments continue to place more mandates that have price tags and simply do not send the money," sighs San Antonio Mayor Lila Cockrell.

So the continuing demand for services hits harder at local taxpayers. In New York, for instance, cities and villages now get only 25% of their budgets from federal and state aid, down from 40% a decade ago. Rather than cut spending accordingly, over the last three years 87% of local communities have raised real estate tax rates by an average of 24%.

Knowing the voters' antipathy to higher taxes, the local politicians are showing lots of ingenuity in collecting new money. They are, for example, relying on user fees and special assessments for everything from golf courses to trash pickup and imposing heavy taxes on new development (FORBES, *Nov. 14, 1988*).

In addition to user fees, local officials use tricks to disguise the real estate tax bite, such as more frequent (and thus less dramatic) reassessments. They have also targeted commercial and industrial property. "Factories don't vote, neither do shopping centers nor commercial office buildings," observes Wayne Tenenbaum, chairman of Tenenbaum-Hill Associates, Inc., a Kansas City, Mo.-based firm that files assessment appeals nationwide for increasingly rebellious commercial and industrial property owners.

What's more, local sales taxes have proliferated, allowing many counties and towns to rely less on the hated property tax than in the early 1970s.

Still, the real estate tax burden has grown. After being cut down to size in the 1970s during the last local property tax revolt, the real estate property

If Only Business Mtgs. Were This Short.

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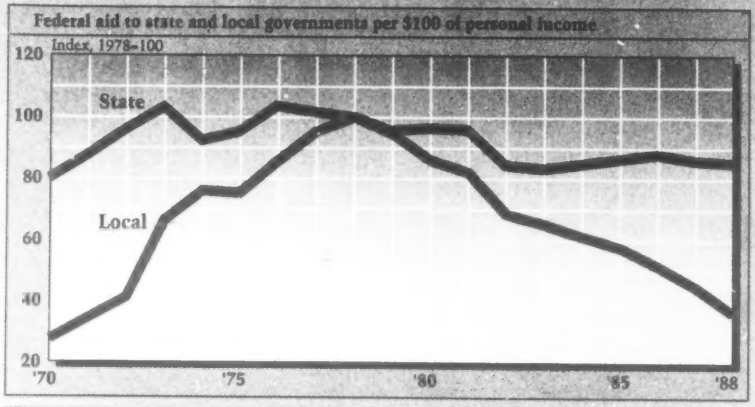
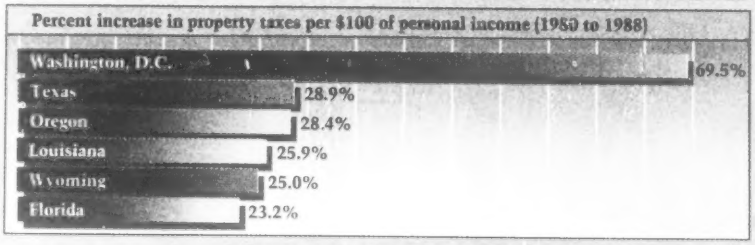
State and local governments get less and tax more

As federal aid to state and local governments has declined over the last decade, property and other local taxes have increased. Below are the six areas that have boosted real estate levies the most.





Source: Steven Gold, National Conference of State Legislatures

tax has become "the comeback kid of the 1980s," says Steven Gold, director of fiscal studies for the National Conference of State Legislatures. In 1972 local officials collected an average of $4.74 in property taxes for every $100 of personal income. By 1982 that had fallen to $3.26. But by 1988 it had crept back up to $3.51 per $100 of income. And that 8% real increase doesn't tell the entire story, because it was held down by states with property tax limits from prior revolts. In Texas, school property tax rates have increased an average 64% since 1983.

Now the taxpayers are starting to retaliate. In Texas, since 1982, voters have been able to force a tax rollback election in any district that raises real estate taxes more than 8%. A record 37 rollback elections are being held this year. So far, 20 of 35 rollbacks have passed, with San Antonio voters ordering a rollback by a 2-to-1 margin. A statewide reassessment in Kansas sparked so much anger that the governor there has proposed a constitutional amendment rolling back local property taxes 20%.

Up and down the East Coast, local revolts are breaking out. New Jersey voters rejected more school budgets last year than in more than a decade. In the Maryland suburbs of Washington, D.C., angry homeowners, shocked by assessment increases of more than 100% in some cases, are pushing for a charter change limiting property tax hikes. "More than I've seen in the last 15 years, there is a groundswell movement on the property tax," says John Andrews, executive director of the New Hampshire Municipal Association, which represents local towns. Joel Cogen, executive director of Connecticut's Conference of Municipalities, says more local officials in that high-property-tax state were ousted—or decided not to run again—in last November's elections than at any time in the past two decades.

Signs taxpayers are mistrustful and restless are everywhere. Last year, for example, voters soundly defeated proposed tax overhauls in Louisiana, Pennsylvania and Oregon and trounced tax hikes for education in Michigan and for children's welfare programs in Washington State.

The voters themselves seem ambivalent. On the one hand, many of them keep demanding more services; on the other hand, they don't want to pay for them. Sure, in some cases local governments could provide services more cheaply. But in a democracy it is a lot easier to increase government spending than it is roll it back. So the tax revolt gathers steam. ■

The Forbes Wall Street Review

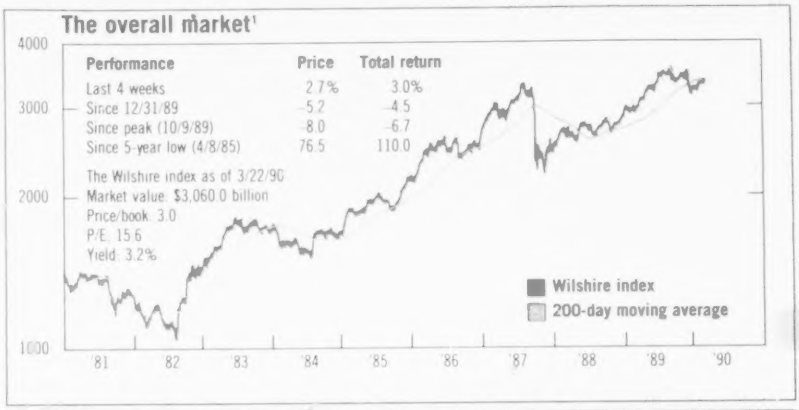
Edited by Eric S. Hardy

Contrarians can find plenty of buy signals these days. The broad Wilshire 5000 index is down more than 5% since December 1989. The Tokyo market has collapsed, with a 29% decline for dollar investors since the end of last year. And both the New York and American stock exchanges are reporting record high short interests.

Greg Smith, chief market strategist at Prudential-Bache, nonetheless sees 1990 as a transition period for the stock market. He expects the Dow to trade as low as 2200 this year. Smith doesn't offer a rosy economic forecast, and concedes interest rates may increase worldwide, but he still likes stocks in cyclical industries like oil exploration and heavy equipment manufacturing. It's plausible: Even with a consumer slowdown, demand for capital spending from Eastern Europe, among other places, could be strong, Smith says, especially for the products of companies like Dresser Industries and Ingersoll-Rand.

Are contrarians buying in Tokyo? Probably not just yet. Even after the decline, Japanese P/Es, averaging 45, are almost triple ours.

How about small U.S. stocks? They've been out of favor for most of the past decade, but they are showing some strength. During the two weeks ended Mar. 22, when most major U.S. indexes declined slightly, the Russell 2000 index of small stocks (market values under $250 million) rose 0.4%.



The Best Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Norton	75⅛	40%	21	11,416	9.6
National Health Labs	12	17	20	59	0.3
LA Gear	35¾	17	12	7,623	1.5
UAL	152	15	10	2,761	0.7
Carnival Cruise Lines	20⅛	14	14	942	1.3

The Worst Performing Stocks

Company	Price	2-week change	P/E	Avg vol (thou)[2]	Rel vol[3]
Midlantic	18⅛	-18%	3	3,780	1.0
Hibernia	16⅛	-18	7	638	1.0
First Fidelity Bancorp	20	-17	8	1,199	0.4
Contel Cellular	19½	-17	NM	629	1.0
Southeast Banking	14⅛	-14	6	2,956	1.7

Closeup on the Market

Index or investment	Price	2-week change
Wilshire index 6,000 stocks, capitalization weighted	3,241.75	-1.2%
Wilshire index 6,000 stocks, equal weighted	21.33	-0.8
Dow Jones industrials 30 stocks, divisor-adjusted price average	2,695.72	0.0
S&P 500 Capitalization weighted cross section, major stocks	335.65	-1.4
NYSE Capitalization weighted, all listed common stocks	184.70	-1.4
Amex Capitalization weighted total return, stocks, warrants	360.48	-0.3
Nasdaq Capitalization weighted, all issues except warrants	434.51	-0.5
Amex international market index Capitalization weighted, 50 largest ADRs	286.02	-7.1

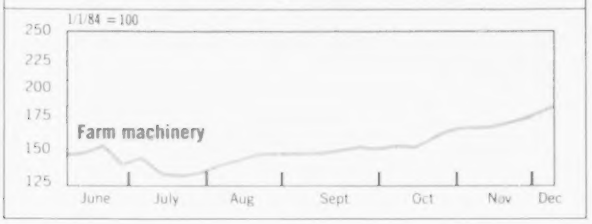
Index or investment	Price or rate	2-week change
Europe, Australia, New Zealand and Far East[4] (EAFE) a dollar denominated capitalization weighted index	827.90	-9.9%
Institutional[5] Approximately 200 stocks with high institutional ownership	113.56	0.1
Individual[5] Approximately 200 stocks with low institutional ownership	103.02	-1.4
Russell 2000 index 2000 stocks with small market values, capitalization weighted	162.74	0.4
Gold[6] (Composite quote of 6 major dealers)	$392.25	-2.5
Yen[6] (per $U.S.)	155.07	2.6
Commodity index[6] (CRB futures index, 1967 = 100)	237.34	-0.7
Oil[6] (W Texas Intermediate)	$20.00	-3.8
T Bills[6](90 days)	7.89%	unchanged
Broker loan rate[6]	9.25%	unchanged

Note: All data for periods ending 3/22/90. Wilshire index reflects price performance. It differs slightly from market value of outstanding stocks because of retirements of equity since index was created. Stocks listed above have market capitalizations of $500 million or more. [1]Capitalization weighted, prepared by Wilshire Associates, Santa Monica, Calif. [2]Average daily volume over a 2-week period. [3]Average daily volume over the last 2 weeks, divided by the average daily volume over the preceding 3 months. [4]Morgan Stanley Capital International Perspective. [5]For period ending 3/23/90. A. Arbel, Cornell University, using Ford Database from Ford Investor Services. [6]Knight-Ridder Financial Information. [7]A basis point is equal to one-hundredth of a percentage point. NM: Not meaningful.

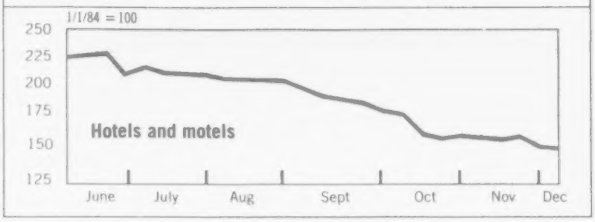
Industry Review

Edited by Gilbert Steedley

Best industry last 6 months



Worst industry last 6 months



After suffering through most of the 1980s, farm equipment manufacturers are coming back strong. This industry is ranked first out of 197 sectors in stock performance over the past six months, according to Los Angeles-based William O'Neil & Co. The technology sector showed signs of recovery as computer software companies and firms that make computerized graphics equipment ranked second and third, respectively, in six-month performance. Ranked last are the hotel stocks, a group beset by overcapacity, high debt levels and a sluggish economy. Hilton's unsuccessful attempt to sell off its properties also hurt these stocks. The prospect of re-regulation has damaged cable television stocks. Now, at their lower levels, they are trading in line with market multiples of cash flow.

Leading Industries

Farm machinery

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Lindsay Manufacturing	31½	48%	93	86	9
Varity	3¼	24	89	52	10
Deere & Co	73⅜	23	89	84	14
Finning Ltd	12½	6	83	69	9
Gehl	16	0	72	99	64

Computer software

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Software Toolworks	25⅜	131%	99	99	40
Adobe Systems	44¼	116	99	98	29
Microsoft	114	82	98	99	31
Structural Dynamics Resources	39⅝	63	97	97	29
Stage Software	12⅝	60	94	90	28

Computer graphics

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Scitex	21⅛	82%	97	86	11
Silicon Graphics	37½	60	98	99	33
New Image Industries	14¾	46	84	90	29
Evans & Sutherland Computer	29½	30	94	35	NM
Intergraph	22½	30	93	52	17

Lagging Industries

Hotels and motels

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Prime Motor Inns	13	–63%	3	74	6
Hilton Hotels	51⅜	–47	7	51	23
Marriott	26½	–30	18	59	16
Journeys End	10⅞	–29	48	77	9
Motel 6	13⅜	–21	34	36	NM

Audio/video home products

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Emerson Radio	3⅛	–35%	19	86	9
Zenith Electronics	9¾	–35	10	18	NM
Commtron	6½	–34	25	73	8
Harman International	15½	–22	16	77	8
Matsushita Elec Ind ADR	131¼	–18	20	67	17

Cable television

Company	Recent price	6-month price change	Relative rank strength	Relative rank EPS	P/E
Jones Intercable	10⅛	–47%	8	14	NM
Cablevision Systems	25⅞	–44	9	13	NM
Adelphia Communications	16	–43	7	13	NM
Century Communications	8⅞	–38	11	9	NM
American Television & Comm	33½	–31	17	97	39

Industries are ranked from 1 (highest) to 197 (lowest) based on the equal-weighted price performance of the companies within the industry group. Relative EPS measures a company's earnings per-share growth in the last 2 quarters, the last 5 years and the stability of that growth. Relative strength is a stock's daily price change over the last 12 months. For both measurements, stocks are compared with all other stocks and ranked on a scale of 0 to 99, with 99 the highest. Industry group performance is based on 6-month equal-weighted price changes with most recent 3-month results weighted 70%. NM: Not meaningful. All data for periods ending 3/16/90. Source: Investor's Daily, Los Angeles, Calif.